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FINANCIAL CIRCLES IN SHANGHAI FOLLOWING THE OUTBREAK OF THE GREATER EAST ASIA WAR

By SHOTARO KOJIMA

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1. FOREWORD

The outbreak of the Greater East Asia War has brought remarkable changes in financial circles in China, especially in Shanghai. As I have explained in detail in one of my previous articles,¹⁾ there were in Shanghai two phases of

1) Kyoto University Economic Review, Vol. XVI, No. 3 & 4.

monetary circulation running parallel: that of the circulation of cash money such as the Central Reserve Bank notes, military notes, and the old *fapi*, on one hand; and that of the circulation of deposit money in the form of the "Bankers' Wei Wah" (同業匯票) issued by the Joint Reserve Board of the Shanghai Bankers' Association (上海銀行業同業公會聯合準備委員會), composed of the Shanghai Bankers' Association (上海銀行業同業公會) and the Shanghai Native Bankers' Association (上海錢業同業公會). After the outbreak of the present war, the Wei Wah system came to be replaced by the new transfer dollar system (新轉帳制度) and the Wei Wah notes became convertible with cash. Thus, after the war both phases of monetary circulation above stated come to be placed on the same plane.

In order to bring about such a unified phase of monetary circulation, various measures such as the following were adopted: the prohibition of the old *fapi* from circulation; the taking over of the enemy banks and their management; the direction of the Chinese banks; the establishment of a new system of bill exchange; and the centralization of the Central Reserve Bank (中央儲備銀行) through its consolidation.

In the present article I propose to observe genetically the various changes that have been ushered in Shanghai's financial circles.

2. FINANCIAL ORGANS IN SHANGHAI AFTER THE OUTBREAK OF THE GREATER EAST ASIA WAR

As soon as the Greater East Asia War broke out on December 8, 1941, the Japanese Army lost no time in taking the foreign settlement into its hands. Enemy financial organs were also either taken over or placed under the Japanese control. The great majority of Japanese, enemy and Chinese banks and native banks (*chien chuang* 錢莊) temporarily suspended their business in preparation for the

possible drastic consequences of the war in the Chinese economic circles.

Later, however, the Shanghai Branch of the Yokohama Specie Bank decided to accomodate special loans to both non-enemy foreign banks and the general Chinese banks against the deposits in the British and American banks, in the same amounts with the deposits. Moreover, as will be taken up presently, because various urgent measures including the adoption of the transfer dollar system were adopted, by December 16 all but the enemy banks were able to reopen their business. But all enemy citizens and firms were subjected to limits in the amount of deposits paid them by banks whether they had deposited with the non-enemy banks or the Chinese banks. A similar limitation was placed on the drawing of deposits in the Chinese banks and native banks. For these banks, however, a special note called "*Pokuantan*" (撥款單) was used for the withdrawing of bank deposits in excess of the amount limited. The use of this note permitted the unlimited withdrawal of deposits. Thus, all banks resumed their business. (I shall later refer to the limitation placed on the withdrawing of bank deposits).

As a result of the taking over by the Japanese army of the British and American banks in Shanghai which had been the centre of the international exchange market in that city, the account possessed by the Chinese banks in these enemy banks was inherited by the Yokohama Specie Bank. Thus, the Yokohama Specie Bank became a sort of a holding bank for the Chinese banks. The former foreign bankers' association was reorganized, their business of exchanging bills was transferred from the Hong Kong Shanghai Bank to the Yokohama Specie Bank, and the presidency of the reorganized association was assumed by the head of the Shanghai Branch of the latter. The pledge made by the Shanghai Bankers' and Native Bankers' Associations in the foreign settlement to support the Central Reserve Bank had the effect of consolidating the power of control on the part of this central bank over the Chinese banks and native banks. The co-

operation between the Japanese banks and the Central Reserve Bank became the new basis of the banking mechanism and activities in Shanghai. Thus the financial aspect of Shanghai came to show remarkable changes, compared with the conditions that prevailed before the outbreak of the war.

In the meanwhile the Central Reserve Bank came to strengthen its control over financial circles. This tendency is especially shown by the Financial Organs Control Act (金融機關管理暫行辦法), promulgated on August 1, 1942, which took effect from the day of its promulgation. This act is to be enforced for the time being in the three provinces of Kiangsu, Chekiang and Anhui. Its salient points are as follows:

1. All new financial organs to be established hereafter are required to secure permission from the Finance Ministry.
2. All existing financial organs must secure a similar permission from the Finance Ministry for the change of their name, organization, capital or business.
3. All financial organs must deposit their reserves in the Central Reserve Bank.
4. All commission-earning transactions, speculative purchases and loaning are prohibited.
5. Owning of land for other than the use of financial organs themselves is prohibited.
6. The Finance Ministry is authorized to issue orders to financial organs with regard to their business whenever such orders are deemed necessary from the standpoint of public interests.

The text of the act is as follows:

THE FINANCIAL ORGANS CONTROL ACT

Article 1. By a financial organ in this act is meant that which carries on any of the following business:

1. Receiving of deposits.
2. Loaning of money or discounting bills.
3. Transactions of bills of exchange.

Article 2. The financial organs which are conducting business at the time this act takes effect should register with the Finance Ministry within one month after the date of enforcement, filling up the following items together with their by-laws:

1. Names of organs.
2. Their organization.
3. Total capital, paid-up capital, names of investors.
4. Location of shops.
5. Sphere of business.
6. Table of debit and liabilities.
7. Names and addresses of representatives and principal directors.

Article 3. Those wishing to establish a financial organ after the enforcement of this act should present a petition to the Finance Ministry with the following items filled up together with its by-laws, and after having received permission should register with the same Ministry:

1. Name of the organ.
2. Organization.
3. Total capital, paid-up capital.
4. Place where the shop is to be located.
5. Sphere of business.
6. Business program.
7. Term of existence.
8. Names and addresses of establishers.

Article 4. Financial organs shall ask for permission from the Finance Ministry in any one of the following cases:

1. Alteration of names.
2. Alteration of organizations.
3. Alteration of gross capital or of paid-up capital.
4. When a business office is established, capacity is altered or position is altered or abolished.
5. Amalgamation or abolition of business or the disorganization of an organ.
6. Alteration of by-laws.

Article 5. Each financial organ shall make a statement of its business and make a report of its assets and liabilities, items of resources and financial account, to the Finance Ministry within three months following each business term.

Article 6. Financial organs shall deposit reserves with the Central Reserve Bank for the payment of their deposits according to the regulations to be made separately.

Article 7. In case a financial organ should declare any holiday other than regular holidays, or suspend payments, a report thereof shall be made to the Finance Ministry without delay.

Article 8. No financial organs shall be permitted to make loans or otherwise accommodate money for any one of the following purposes:

1. For any clearing business of negotiable securities and other com-

modities.

2. For the purpose of cornering, hoarding or other speculative purchases. No financial organs shall carry on speculative transactions.

Article 9. No financial organs shall own movables (excepting securities) or real estate except in the case of securing goods necessary for their business or of receiving security goods in the liquidation of debts.

Article 10. No financial organs shall undertake any business other than their own excepting the following:

1. Taking over or transaction of securities.
2. The warehousing business or storage.
3. Agency for other financial organs.
4. Agency for financial accounting business.

Article 11. The Finance Ministry shall be authorized to issue orders regarding the business of financial organs whenever such orders are deemed necessary for public interests.

Article 12. The Finance Ministry shall be authorized to require financial organs to make a report regarding their business affairs or if need be, to require them to present their books and documents.

Article 13. The Finance Ministry shall be authorized whenever necessary to make an inspection into the business affairs and property of financial organs.

Article 14. The items given in the preceding two Articles may be entrusted in case of necessity to the Central Reserve Bank for their disposal.

Article 15. Permission of the Finance Ministry shall be required for the establishment of a bankers' association or of the native banks' association.

Article 16. The financial organs which have conducted business provided in Article 1 without making registration mentioned in Article 2, or without having secured permission provided in Article 3, or their representatives or directors shall be fined not exceeding 50,000 yuan, or shall be subject to imprisonment.

Article 17. When financial organs have acted in violation of laws, by-laws, or orders issued by the Finance Ministry or acted against public interests, the Finance Ministry may suspend their business, or dismiss their representatives or principal directors, or cancel permission to conduct business.

Article 18. In any one of the following cases, representatives or the principal directors of financial organs shall be fined not exceeding 10,000 yuan or shall be subject to imprisonment:

1. When financial organs deceive government officials by making false reports of their business affairs or otherwise.
2. When financial organs have hidden away books or documents or made false statements and otherwise obstructed inspection when such an inspection is made according to the provisions of this act.
3. When violations are made against Articles 4 to 10 or Article 15.
4. When any orders issued according to the provisions of this act are disregarded by financial organs.

Article 19. This act shall take effect beginning from the day of its

promulgation.

It goes without saying that in order to have the real power of a central bank, the Central Reserve Bank should be able to carry out financial measures as occasions demand for financial organs, especially the banks. It is because of this necessity that the Financial Organs Control Act directs the concentration of deposit reserves in the Central Reserve Bank. The regulations relating to the enforcement of this act (金融機關管理暫行辦法施行細則) promulgated on September 18 provide for the depositing in the Central Reserve Bank of five per cent or more of reserves for fixed deposits and special current deposits and of ten per cent or more for current deposits, the amount of deposits being estimated at the end of each month. Such reserve deposits are to be made in the reserve account of the Central Reserve Bank before the end of the following month. In case a bank has received a security for the payment of debt, it should be disposed of within one year and be converted into cash so as to fill up its capital. The regulations concerning the enforcement of the act are as follows:

THE REGULATIONS CONCERNING THE ENFORCEMENT OF FINANCIAL ORGANS CONTROL ACT

Article 1. Financial organs shall deposit their payment reserves in the reserve account of the Central Reserve Bank according to the following:

1. Five per cent or more for fixed deposits and special current deposits.
2. Ten per cent or more for current deposits.

Deposits provided in the foregoing clauses should be ascertained at the end of each month and depositing of their payment reserves should be made before the end of the following month.

Article 2. In case a financial organ received a security for the liquidation of a debt, it should dispose of it within one year whether it be movable (except securities) or immovable.

Article 3. Any financial organ which has been conducting business other than that provided in Article 10 of the Financial Organs Control Act since prior to the taking effect of that act, shall settle the accounts of such business within one year following the taking effect of the act.

Article 4. Report of business affairs, list of assets and liabilities, list of property items and of financial accounts, all of which are to be made according to Article 5 of this act should be presented to the Finance Ministry

through the Central Reserve Bank.

Article 5. The collection of reports on the business affairs of financial organs to be made according to Article 12 of the act shall be entrusted to the Central Reserve Bank for the time being.

Article 6. When the Finance Ministry deems it necessary to require financial organs to present their books and documents for inspection, it should name the kinds and items of books and documents to be presented and instruct the Central Reserve Bank to carry out the task of inspection on its behalf.

Article 7. When the Finance Ministry deems it necessary to inspect financial organs, it should specify their names and items to be inspected and instruct the Central Reserve Bank to carry out the task of inspection.

The Central Reserve Bank should make a detailed and complete report of the work of its inspection upon its completion.

Article 8. The foregoing detailed regulations shall take effect beginning from the day of their promulgation.

Both the Bank of China (中國銀行) and the Bank of Communications (中國交通銀行) had long occupied the dominant position in China's financial circles as somewhat government banks. But they cut their relations with the Chungking regime in September, 1942 and began their new life as purely commercial banks with the Central Reserve Bank notes as their capital. These two banks have the oldest history as Chinese modern banks, the Bank of China conducting international exchange business and the Bank of Communications trying to develop the domestic business. They formed three government banks together with the Central Bank (中央銀行). They also had a complex centralized banking system and enjoyed a vast credit in China's economic and financial circles. So great indeed was their sphere of activity in China's private business world that it may be said that they enjoyed a monopolistic business in the interior region. The very fact that these two powerful banks became the two wings of the Central Reserve Bank coupled with the promulgation of the Financial Organs Control Act had a very great effect of consolidating the controlling power of the Central Reserve Bank in functioning as the central bank of China.

Now that the controlling power of the Central Reserve Bank has been strengthened as a result of the establishment

of a new system of concentration of reserved funds in that bank, there has risen the new and important problem of relations between that central bank and the old financial mechanism centering on the two financial organs, namely, the Joint Reserve Board of the Shanghai Bankers' Association and the Reserve Board of Native Bankers' Association. These two boards had hitherto been carrying on the work of financial accommodation and exchange of bills as a sort of guild reserve board. This joint reserve system had hitherto existed between the three government banks of the Chungking regime and private banks and functioned in part as a central bank. Although it had no issue right, it managed to create and adjust capital by means of the Bankers' Wei Wah *lingyung* system (同業匯割領用制度). The transfer dollar system (轉賬制度) to which I shall refer later is also based upon this joint reserve board. This board has been a mutual and self-protecting financial mechanism and has displayed its faculty in times of financial crises and has been a peculiar feature of China's financial circles. It was clear beyond doubt that it needed intricate devices and considerable preparation in order to reorganize this reserve system having such a powerful function and faculty, and to make it an institution of central banking, and at the same time cause no inconvenience to financial circles.

Concerning this matter, a report from Shanghai under date of September 10, 1942 stated that a perfect understanding has been reached among the members of the Joint Reserve Board of Shanghai Bankers' Association and of Native Bankers' Association regarding the depositing of the reserves of the Chinese bank and native banks in the Central Reserve Bank, shortly after the promulgation of the Financial Organs Control Act and that the new measure has been put into operation with the taking effect of the act. It is not clear, however, what concrete measures were decided as the basis of the above understanding between the Joint Boards and the Central Reserve Bank.

3. THE COLLAPSE OF THE OLD *FAPI* AND THE EXTENDED CIRCULATION OF THE CENTRAL RESERVE BANK NOTES.

Following the outbreak of the Greater East Asia War, the *fapi*, the old legal tender (舊法幣), greatly depreciated in value due to the repeated military and naval defeats of Great Britain and of the United States. In March, 1942, the value of the military notes in China went up considerably. This was especially so after March 9 on which the Yokohama Specie Bank limited the quotation of exchange value of the military notes only to the Central Reserve Bank notes. Thus, the public discredit in the *fapi* increased and with the promulgation of the Revised Monetary Adjustment Act on March 30 (修正整理貨幣暫行辦法), the par relations between the Central Reserve notes and the old *fapi* disappeared. The Revision of the Monetary Adjustment Act and the announcement thereon are as follows.

REVISION OF THE MONETARY ADJUSTMENT ACT

Article 3. Various legal tender (called the old *fapi* hereafter) which are regulated by the New Monetary Act promulgated on November 3, the 24th year of the Chinese regime, shall be permitted to be circulated for the time being except under special circumstances.

Article 4. The Central Reserve Bank shall be authorized to withdraw the old *fapi* of various kinds by legal tender of its issue and thereby to promote the unification of currencies.

Article 6. All payments to the Government including taxes shall be made in the Central Reserve Bank notes, except those provided for by the Finance Ministry.

This revised act shall take effect beginning from March 31, the 31st year of the regime.

THE ANNOUNCEMENT OF MARCH 30

1. The equivalent-circulation of the Central Reserve Bank notes and the various old paper currencies will be abolished beginning from March 31st, the 31st year of the regime (1942).

2. All old paper currencies now in circulation except those of special circumstances will be permitted to circulate for the time being.

3. All contracts made before March 31, 1942, except those of special nature, should be paid in old currencies.

However, the methods of payment and receipt of the main office of the Central Reserve Bank will be decided by that bank.

The wholesale retreat of the Anglo-Saxon influence from the entire East Asia intensified the isolation of the Chungking government and had the effect of further depreciating the value of the old *fapi*. On May 27 the Nanking Government issued a declaration depriving the old *fapi* of their character of legal tender. The announcement made by the Finance Ministry on June 1 recognized the Central Reserve Bank notes as the only legal tender in the following district: Kiangsu, Chekiang, Anhui, Nanking and Shanghai. No official use of the old *fapi* was recognized except in the special cases decided by the Finance Minister. The exchange of the Central Reserve Bank notes and the old *fapi* at the ratio of 1—2 in favour of the former was ordered by the Finance Minister. The announcement is as follows:

THE ANNOUNCEMENT OF THE FINANCE MINISTER

In view of the fact that the amount of the old *fapi* has greatly increased recently, that an equilibrium has been lost in finance and that prices have shown great fluctuations, the Finance Ministry at the end of March last abolished as an emergency measure the regulations by which the new and old legal tender had been held at par. However, the old *fapi* has further shown depreciation, causing thereby people's unrest and an economic instability. We are of the opinion that the situation could not be remedied unless a currency unification is brought about by means of the Central Reserve Bank notes. Accordingly, the Finance Ministry has decided to carry out the following measures in the Kiangsu, Chekiang, Anhui, Nanking and Shanghai districts, beginning from June 8 and has adopted legal measures necessary for this policy:

1. Hereafter the Central Reserve Bank notes only will be recognized as legal tender and no official use of the old *fapi* will be recognized except in the special cases decided by the Minister of Finance.

2. In order to withdraw the old *fapi* from circulation, the Government will exchange them with the Central Reserve Bank notes at the ratio of 2 for the old *fapi* and 1 for the notes. However, instead of exchanging the old *fapi* with the Central Reserve Bank notes, their possessors may be requested to exchange them with national government bonds or deposit them in a bank. The old currencies to be exchanged are those of the Central Bank, the Bank

of China and the Bank of Communications (except those bearing the names of localities other than Shanghai). The old subsidiary notes will not be exchanged but will be allowed to continue in circulation for the time being at the rate of one half in value of the Central Reserve Bank notes of the same value.

3. As to the national bonds to be exchanged with the old *fapi*, they will be loaned out as security at their face value by the Central Reserve Bank whenever such just claims are made. Moreover, the Government will establish a special account for their adjustment and will make a plan for their speedy redemption.

4. The existing credit and liabilities in account of old *fapi* are regarded as having been converted into the account of the Central Reserve Bank notes at the ratio of 2—1 and all contracts made in the old *fapi* hereafter shall be considered null and void.

5. The transfer of the old *fapi* from the non-pacified territories into the pacified territories shall be prohibited rigorously hereafter. This step for depriving the old *fapi* of their legal character is taken in order to bring about the nation's currency unification by means of the Central Reserve Bank notes.

To exchange the old *fapi* with the Central Reserve Bank notes is a method of protecting the possessors of the old *fapi*. If, therefore, each person should offer his old currencies to the Government and receive the Central Reserve Bank notes in return, he would be not only cooperating with the Government in bringing about a currency unification as well as an economic stability, but also protecting his own property. Each citizen is asked to appreciate the Government's intention and should act accordingly. The Government has today promulgated a law concerning the adjustment of the old *fapi* (整理舊法幣暫行辦法), the law of readjustment of old currencies (整理舊幣條例), the regulations for the financial stability of national bonds of the 31st year of the regime (民國三十一年金融安定公債條例), and the financial stability national bond special account act of the 31st year of the regime (民國三十一年金融安定公債特殊會計辦法), and has made announcements thereon in the Government Gazette and the Finance Ministry Gazette. But we have also herewith made the same announcements.

Thus, the work of withdrawing the old currencies began and by July 4 all business transactions in British, American and other enemy currencies were prohibited. Then, on July 28th a contract was made between the Bank of Japan and the Central Reserve Bank by which a loan of 100 million yen was allowed to the latter. Thus, the foundation of the Central Reserve Bank notes was strengthened and the currencies circulated in Shanghai became two kinds, namely, the new legal tender and the military notes.

4. LIMITED DEPOSITS AND CASH DEPOSITS

When the Greater East Asia War broke out on December 8, 1941, some of the Chinese banks were carrying on business while others were closed. But about an hour after they opened their doors on that morning, they were all told by the Shanghai Municipal Council to close their doors. On the same day, the Council at the request of the Japanese authorities in Shanghai ordered the Chinese banks to limit the withdrawal of deposits. In the evening of the same day, the Shanghai Bankers' Association and the Shanghai Native Bankers' Association held their joint meeting and decided on the Temporary Regulations for Managing Business of banks and native banks in Shanghai (上海銀錢業營業暫行辦法) and to carry it out beginning from December 10. The so-called new transfer system (新轉賬制度) was devised according to this law. In order to meet the system of limiting the withdrawal of deposit, the Pokuantan notes (撥款單) were employed for the payment of deposits beyond the limitation. These notes were issued against either the Joint Reserve Board of the Shanghai Bankers' Association or the Joint Reserve Board of Shanghai Native Bankers' Association. The new transfer system is a method of meeting the limitation of deposit withdrawal and also of encountering the financial crisis of the time. This system was destined to completely transform the financial mechanism of Shanghai. It was invented by the voluntary act of the Chinese bankers in Shanghai and had nothing to do with the order or desire of the Japanese authorities there. The regulations relating to the new dollar transfer system are as follows:

TEMPORARY REGULATIONS FOR MANAGING BUSINESS OF BANKS AND NATIVE BANKS IN SHANGHAI

1. The business hour of banks and native banks except on holidays is from 10 a.m. to 1 p.m. The same hour is also for Saturdays.
2. Current deposits should be disposed of according to the regulations in force enabling the withdrawal of the maximum amount of 500 yuan in cash notes for each deposit in three days. Withdrawals in excess of this

maximum amount may be paid in the Pokuantan notes (撥款單).

3. For the payment of workers, each depositor should receive an average amount of 20 yuan in cash notes in three days for each worker, according to the temporary regulations.

4. In the case of fixed deposits, except those which are to be continued upon their period of expiry, both principal and interest should be transferred to current deposits and should be disposed of as in the case of Clause 2.

Loans against fixed deposits are limited to 1,000 yuan, but in case of deposit under 2,000 yuan, the loan limitation is half of the amount of the deposit.

5. Depositors are permitted to withdraw their deposits in cash notes, whether they are continued or newly established, provided they paid in cash notes, and will not be subject to limitation of the temporary regulations.

6. When deposits are made in various bills, their payments in withdrawal will be made in the Pokuantan (撥款單) notes.

7. All long and short term bills issued before December 8, 1941 will be paid in the Pokuantan notes.

The foregoing temporary regulations will be cancelled by a public announcement upon the restoration of the normal market conditions.

In the foregoing joint conference of the two banking boards, the following regulations were decided upon regarding the stamping of cheques:

(a) The stamp 「此票祇准轉賬」 or "For Transfer of Account Only" should be placed on all cheques issued by each bank or native bank beginning from December 8, 1941.

For the deposits made in cash notes after December 6, 1941, the depositor may receive cash notes by cancelling the above stamp and by writing his own signature.

(b) When the banks and native banks having business connections with the Joint Reserve Board, issue the drafts of the board (Wahtouchihpiao 劃頭支票), their receipt and payment are to be made by the transfer account system and such drafts should be stamped "For Transfer of Account Only" (此票祇准轉賬).

The Chinese banks decided on the following after their representatives held a conference with the Japanese authorities on December 13:

1. After December 16, we shall take up payments in Wei Wah drafts (匯劃) in unlimited amounts.

2. We shall continue the limitation of cash payment of the following amounts: 500 yuan in three days for individual deposits and 20 yuan per head for the payment of salaries for employees.

3. The payment of cash notes for the bonuses and salaries of employees may be paid through negotiations between the depositors and the banks.

The Chinese banks also pledged to carry out the following by way of showing their cooperation with the Japanese authorities :

1. To suppress the loaning of speculative capital.
2. Not to carry on any speculative transaction of military notes.

Such, indeed, were the measures taken by the Chinese banks and native banks in coping with the limitation of bank deposits after the outbreak of the Greater East Asia War. According to these measures, banks and native banks were to stamp "For Transfer of Account Only (此票祇准轉賬)" on each leaf of cheque books when giving them to depositors of current deposits after December 8. Thus, depositors have to erase the stamp on each leaf of the cheque book and place their signature over them, when they want to receive cash for their deposits. But the depositors have cheque books formerly given by their respective banks, and when they use these books, payments in amounts within the limitation are made in cash and those in excess of limitation are made in the Pokuantan notes. For example, supposing one has drawn to the amount of 3,500 yuan on cheque, one receives in cash up to 500 yuan within three days and the remainder in the Pokuantan notes, and this fact is written on the back of the cheque and one's signature is put on it. In either case, it is only the depositor, himself who can receive the payment in cash (*fapi*). When a cheque is given to a third person, he receives the whole amount in the Pokuantan notes.

I shall now summarize what has been stated and make a brief comment thereon.

First, there is a limitation placed on the withdrawal of deposits, that is, the blockade deposit is introduced. Thus, all the deposits of the Chinese banks and the native banks are blockaded and their withdrawal in *fapi* within a definite limit is allowed. The object of this measure is to prevent running on banks due to political confusion.

The limitation placed on the withdrawal of current deposits under the new system is much more lenient than

a similar method under the old system. This leniency is probably due to the consideration of rises in prices in the period following. The maximum amount of deposit withdrawal in three days is placed at 500 yuan. The limitation under the old system was much more rigorous. In the Emergency regulations for the Stabilization of Money Market (非常時期安定金融辦法) promulgated in August, 1937, the maximum amount of deposit withdrawal was placed at five per cent of the remaining deposit, the highest amount being fixed at 150 yuan. The highest amount of deposit withdrawal in the Supplementary Regulations for the Stabilization of the Money Market (新安定金融辦法) promulgated in June, 1939 was placed at 500 yuan in one week. Thus, there is a greater possibility of the blockaded money in Shanghai becoming comparatively more speedily cash money under the new system of the transfer of account system than under the old systems.

Secondly, the *fapi* deposits made after December 10 can be withdrawn without any limitation. This is intended to facilitate the return of the *fapi* to the Chinese banks and native banks and thereby prevent its hoarding. Since with the lapse of time the blockade deposits are to be withdrawn in *fapi*, it is intended to let the *fapi* be re-deposited and thus to return the Shanghai financial circles to the normal condition of *fapi* economy.

Thirdly, the establishment of the transfer dollar system enables the withdrawal of the blockaded deposits in excess of their legal limitation in the *Pokuantan* notes. These notes in principle are to be settled not in cash (legal tender) but by the transfer of deposits of the banks and native banks with the Joint Reserve Board of the Shanghai Bankers' Association and the Joint Reserve Board of the Native Bankers' Association.

As a result of the foregoing changes, deposits and cheques were each reduced from three to two in kinds.

There had been the following three kinds of deposits in the banks and native banks in Shanghai prior to the

outbreak of the Greater East Asia War: (1) *fapi* deposits (2) limited deposits and (3) the Wei Wah deposits. By *fapi* deposits was meant deposits made either in *fapi* or in *fapi* bills and these could be withdrawn in *fapi*. By limited deposits was meant those deposits on the amount of whose withdrawal was placed a certain limitation either in the Emergency Regulations for the Stabilization of the Money Market of 1937 or by the Supplementary Regulations for the Stabilization of the Money Market of 1939. There was a certain limit placed on the amount of cash withdrawal from the deposits and those withdrawals in excess of the limit were to be paid in the Wei Wah drafts. The Wei Wah drafts are, as will be explained shortly, those which are not settled in cash but must be deposited as they are. The Wei Wah deposits consist of those deposits which are paid in with the Wei Wah drafts withdrawn from the foregoing two deposits.

But, with the enforcement of the above-mentioned Temporary Regulations for Banks and Native Banks in Shanghai, these three kinds of deposits were all converted into one kind of limited deposits which came to be treated in a different way with the deposits made in cash since then. Therefore, there remained two kinds of deposits, *viz.* cash deposits (現鈔預金) and *Wahtou* (劃頭預金) deposits. The cash deposits can be withdrawn in unlimited cash and the other which is of the same nature with the Wei Wah deposits (匯劃預金) can be withdrawn in *Pokuantan*. Accordingly there came to be the same two kinds of bills and cheques (involving *Pokuantan*) which are used for transfer of deposits.

The *Wahtou* drafts are the bills (*chihpiao*) which were paid in cash in China prior to the war on the day of their presentation, while the Wei Wah drafts were not paid in cash but were only settled by the transfer of the bankers' accounts through the exchange of bills. But after the outbreak of the present war, the name "Wei Wah" disappeared, and the *Wahtou* notes which were paid in cash on the day of their presentation, prior to the war, came to possess the

character of the Wei Wah and became notes which are not to be paid in cash.

5. THE NEW TRANSFER DOLLAR SYSTEM

The New transfer dollar system was established as a method of carrying on the foregoing Temporary Regulations for Managing Business (上海銀錢業營業暫行辦法). This system roughly resembling the former Wei Wah system has its special features on which I shall dwell in the following pages.

The means of the transfer of the blockaded current deposits in the case of the past Wei Wah system were either *pen piao* (本票 promissory notes) or *chih piao* (支票 cheque) drawn by the banks or native banks upon themselves. But under the new transfer dollar system, the transfer is made by means of the *chih piao* notes drawn upon either the Joint Reserve Board of Shanghai Bankers' Association or the Joint Reserve Board of Native Bankers' Association, and their settlement is made by the transfer of deposit accounts of the banks and native banks with these boards. Next, under the old Wei Wah system, the Wei Wah notes had no convertibility with foreign currencies, while the *fapi* had this property, and thus these two currencies had their different functions. But under the new system, this difference has disappeared since the *fapi* also lacks convertibility with foreign currencies. Whereas the aim of the old Wei Wah system was to prevent the flight of capital which was in the form of bank deposits by depriving it of convertibility with foreign currencies, the new banking system is intended to prevent confusion in economic circles due to the blockade of bank deposits.

Moreover, the new transfer dollar system abolished the *lingyung* (領用) Wei Wah. Under the former Wei Wah system (since June, 1939) the banks and the native banks belonging to the Joint Reserve Board of Shanghai Bankers' Association and the Joint Reserve Board of Native

Bankers' Association offered a certain kind of property to the Joint Reserve Board of the Shanghai Bankers' Association and in return received Bankers' Wei Wah which were deposited as Wei Wah current deposits as their settlement funds. But the so-called *lingyung* Wei Wah were all to be paid in Wahtou (劃頭) notes by December 12, 1941. The securities offered by the banks and native banks were also returned. It is not clear so far what particular system replaced this *lingyung* Wei Wah system. But if this system of creating funds by means of the mechanism of mutual indebtedness on the part of the banks and native banks by offering their property as securities has been suspended, then it may be said that there is another drastic difference between the old Wei Wah system and the new transfer dollar system.

True, the Joint Reserve Board of the Bankers' Association on June 1, 1942 put into operation the Regulations concerning the Banking Loans enabling the loaning to Banks and Native Banks by the Joint Reserve Board (辦理各行莊拆放委員暫行辦法) against a certain kind of property as security. But since the term of loans was fixed at ten days, the regulations only create funds for call loans.

Under the old Wei Wah system, there were two kinds of bills, namely, the Wahtou notes and the Wei Wah notes, the latter being stamped "Interbank Settlement Only" (此票祇准同業匯劃). But under the transfer dollar system, all bills are the Wahtou notes some of which are stamped "Cash" (現鈔) while the others are stamped "For Transfer of Account Only" (此票祇准轉賬) or "Transfer Dollar"; while still others are not stamped at all, although all are new Wahtou notes. Thus, both Wei Wah deposits and Wei Wah bills have altogether disappeared and have been replaced by Wahtou deposits and Wahtou bills, both of which, however, have become fundamentally different in meaning as compared with those prevailing before the outbreak of the Greater East Asia War.

With the adoption of the transfer dollar system, the hitherto accustomed term "Wei Wah" (匯劃) has been

replaced by another accustomed term "Wahtou" (劃頭) for all bills. Formerly, the Wei Wah drafts were settled by exchange and were paid on the day following the day of presentation to those wishing to receive cash. However, until recently these drafts ceased to be converted into cash, while Wahtou drafts were to be paid in cash on the day of presentation. Now, under the new system of transfer dollar, the Wahtou drafts ceased to be paid in cash and thus became the same as the Wei Wah drafts very recently. This is why the name "Wei Wah" has been abolished altogether and the word "Wahtou" came to designate all bills. The Bankers' weekly (銀行週報)¹⁾ of a recent issue says: "Although the Wahtou notes were bills which were paid in cash on the day of presentation, they came to assume the character of Wei Wah bills as a result of the recent renovation. The old name of 'Wei Wah' was abolished and there has come no differentiation between the Wahtou and the Wei Wah as it was in former times". However, people continue to use the word "Wei Wah" to which they have been so accustomed and the new system of transfer dollar is called by them as the new Wei Wah system (新匯劃制度). It may, however, be mentioned that the word Wei Wah has been struck out from the financial vocabulary of Shanghai, only being employed in connection with the Wei Wah General Board (匯劃總會). It is not correct to call the new system as the Wei Wah system, for it should be called either "the transfer dollar system" (轉賬制度) or "the Wahtou system" (劃頭制度).

In order to respond to the establishment of the new transfer dollar system, the Japanese banks in Shanghai opened the Wahtou account with the following regulations:

(a) Such deposits are limited to those which are made with the Wei Wah bills (to be more correct, the Wahtou bills), which the Japanese depositors have received in the process of their business transaction, and their payments are to be made also in the Wei Wah bills. However, cash may be paid when

1) 銀行週報, 第二十六卷第一期第二期合刊—上海金融 p. 1.

2) 大陸新報, March 29, 1942.

it is convenient for a bank to do so.

(b) When a customer demands the payment of Wei Wah deposits, the Japanese banks may issue Wei Wah drafts against the Joint Reserve Board and give them to him.

(c) To those demanding Wei Wah bills the Japanese banks may sell Wei Wah cheques (匯割小切手) issued by them against the Joint Reserve Board.

(d) The customers wishing to receive payment for their Wei Wah deposit account in cash should receive permission thereof from the financial commissioner through the Japanese bank concerned. No such permission will be required for cash payment below 5,000 yuan per month.

Thus, the Japanese side has also accepted the new Wahtou drafts and has been given the convenience of cash payment from the Wahtou deposits under a definite system of limitations in order to facilitate the financial transaction between the Japanese and Chinese businessmen.

Like the Wei Wah drafts under the old system, the Wahtou drafts cannot be converted into cash (or *fapi*). In actual practice, however, they may be converted into cash by means of discount (貼現). The rate of discount was very high at the beginning of the Greater East Asia War, but it has been taking a downward course since then due to the increasing stability of the financial market in Shanghai and the increase in the amount of *fapi* capital. The Bankers' Weekly says¹⁾: "The present tendency is that discount is likely to disappear in the future and indeed one may anticipate a premium on the Wahtou notes, because it is both inconvenient and dangerous to carry cash (*fapi*) and thus cash will flow into the market in large amounts as the consequence of devaluation." Although the phenomenon of premium was seen in the old Wei Wah system, it is doubtful that the same phenomenon will be seen in the present system because of the difference between the old and the new system regarding their financial environment (chiefly as regards convertibility into cash).

It appears that the Joint Reserve Board of the Shanghai Bankers' Association is also authorized to convert Wahtou

1) 銀行週報, 第二十六卷第一期第二期合刊—上海金融 p. 1.

drafts into cash, and the Finance Ministry may through that board control the rates of discount, together with the similar right accorded to the Japanese banks. Regarding this point the Bankers' Weekly reports as follows¹⁾:

"The discount rate for the Wahtou notes in this city has steadily risen these days until the highest peak of 1,500 yuan per 10,000 yuan has been reached. This means that 10,000 yuan in cash may be converted with 11,500 yuan in Wahtou notes. In view of this steady rise of the discount rate for the Wahtou notes, the Joint Reserve Board of the Shanghai Bankers Association has decided to supply cash again in order to adjust the demands of the bankers. Although the Joint Reserve Board will not directly supply cash to native banks (chien chuang) but will supply it to the Reserve Board of the Native Bankers' Association. However, all banks belonging to the Joint Reserve Board are entitled to demand conversion at par into cash by presenting a request for transfer of Wahtou accounts or drawing a cheque, according to the amount decided by the Boards, and the board will endorse the cash account of each bank, at the following times: first, from May 25 to 30 and second, from June 1 to 10.

As explained above, the Wahtou drafts have a flexibility of being converted into cash and this is another point of difference between the old and new systems of banking in Shanghai.

6. THE HISTORY OF THE EXCHANGE SYSTEM OF BILLS

Formerly, there was no special organ for the exchange of bills among modern banks in Shanghai. The bills were cleared either through the Bund banks (Waitan banks) or the Wei Wah Central Board (匯豐總會). It was in the 22nd year of the Chinese regime (1933) that the clearing house (上海票據交換所) attached to the Joint Reserve Board of the Shanghai Bankers' Association was established. At first, only the bills handled between the modern banks in Shanghai were settled through the clearing house and those passed between the modern banks and native banks and between the modern banks and the Bund banks were cleared as before. But in June, 1935 an agreement was reached for

1) 銀行週報, 第二十六卷, 第十九期二十期合刊—金融雜訊, p. 1.

mutual cancellation between the banks and native banks through the good offices of the Joint Reserve Board and the Reserve Board of the Native Bankers' Association. Then in 1939 the latter board participated in the clearing of the Joint Reserve Board by virtue of the Regulation of Shanghai Banks and Native Banks Clearing (上海銀錢業票據集中交換辦法) and after this all bills between banks and native banks came to be collected and exchanged by the same organ.

There has gradually developed in Shanghai a unified modern system of clearing and its method of exchange came to resemble that which is employed in Japan and the differences of amounts were to be settled on book account. About three months prior to the outbreak of the Greater East Asia War, this system of clearing was replaced by a method of collection (代收) by the Joint Reserve Board. This method was provided by Article 15 of the new clearing regulation (上海銀行業聯合準備委員會變更票據交換制度辦法). This regulation abolished the former distinction between exchange banks (交換銀行) and represented exchange banks (委託代理交換銀行), in consequence of which all became special transaction banks (特殊往來銀行). Each of these banks then entrusted the work of bill collection individually to the Joint Reserve Board for the reciprocal transfer of their deposits with it instead of attending the regular daily meeting at the clearing house.

Thus, the procedure of settling bills was taken up by the Joint Reserve Board and the clearing house became only a nominal existence. This alteration is explained by the preamble to the foregoing clearing regulation as follows: "The number of various bills has steadily increased in recent months. Because of this increase, the unity of clearing procedure became highly difficult while the routine business of the board has become all the more complex. There is a limitation both in time of calculation and space and a simple method became impossible of realization under the existing system. For this reason we have taken into consideration the method employed by the London clearing house and adopted the new method of collection for all bills

in order to assure the unity of procedure and collection."

While it is doubtful whether the above preamble is the real reason for the adoption of the collection method of bill exchange, the fact is that the former system of clearing was restored after the outbreak of the Greater East Asia War. This restoration of the clearing system was made by virtue of a new banking clearing regulation and took effect beginning from May 1, 1942 (上海銀行業同業公會聯合準備委員會恢復定時票據交換制度辦法). Thus, the method of collection has been replaced by the periodical clearing of bills.

As has been already stated, by virtue of the announcement made by the Finance Ministry under date of June 1, 1942, only the Central Reserve Bank notes were regarded as legal tender or *fapi* in the Shanghai district and it was regulated that the new legal tender was exchangeable with the old *fapi* at the ratio of 1 to 2 in favour of the former. Now, in the clearing of bills, too, the Central Reserve Bank notes were regarded as the standard, and the Joint Reserve Board prohibited the exchange of cash or Wahtou notes on the basis of old *fapi* and the Central Reserve Bank notes were made the basis of the new system of clearing. The following are the salient points of the new clearing regulations decided by the Joint Reserve Board.

(1) This Board prohibits beginning from June 1 the exchange of cash or Wahtou bills on the basis of old *fapi*.

(2) From June 1 this Board will take up the exchange of Wahtou bills on the basis of the Central Reserve Bank note.

(3) In case an exchange bank, represented bank and other banks including the native banks should receive after June 1 the old *fapi* or the old Wahtou bills which were issued prior to May 31, each of such currencies or bills should be exchanged with the Central Reserve Bank notes or Wahtou bills at the ratio of 2 to 1, and then after designating the amount in red ink on the front of each bill should send them either for exchange or for collection.

4) As to the *fapi* deposits each bank or native bank has with our Board, such a bank or native bank should convert the amount of our debit balance as on May 31, 1942 into the Central Reserve Bank note account at the ratio of 2 to 1 either by means of presenting a request for transfer of account or by drawing a cheque and transfer them to the Central Bank note account which it holds with our Board.

(5) Each bank or native bank having the old *fapi* Wahtou deposits with our Board should send the debit remainder under date of May 31, 1942 either by presenting a request of transfer account or by drawing a cheque and convert them into the Central Reserve note of Wahtou account at the ratio of 2 to 1 and should open a separate account on the Central Reserve Bank note basis and receive the same into that account.

A similar regulation was adopted also by the Reserve Board of the Native Bankers' Association and the entire exchange of bills came to be based on the Central Reserve Bank notes.

7. CONCLUDING REMARKS

We have briefly dwelt in the changes that have been made in the financial market of Shanghai following the outbreak of the Greater East Asia War. The following are the salient points of differences compared with the conditions before the war.

1. The former dual phase of currency circulation in parallel, namely, the circulation of inconvertible Wei Wah funds and that of cash money have been replaced by a single phase of currency circulation consisting of cash currencies and deposit currency both of which inter-circulate on the same phase.

2. The system of Wei Wan notes which formerly were turned into cash on the day following their presentation and more recently were not turned into cash at all has come to be abolished altogether. Further, the Wahtou bills ceased to be paid in cash. For this reason the former distinction between the Wei Wah notes and the Wahtou notes has been lost and as far as the name goes only Wahtou notes remain. But since people continue to call them by the name of Wei Wah notes, the two have become identical in reality.

3. The function and position of the two financial associations, namely, the Shanghai Bankers' Association and the Shanghai Native Banks' Association, both of which are said to be a sort of guild, are passing into the hands of the

Central Reserve Bank.

4. For the exchange of bills, the British system of collection has been replaced by the new system of clearing like our Japanese system. Formerly, the Chinese banks and native banks, and foreign banks each had their own system of exchange of bills, but now they exchange bills in close touch with one another and a unified system of exchange is about to be established.

5. Various currencies have been adjusted and there now remain two forms of currencies, namely, the Central Reserve Bank notes and the military notes, their unified ratio of exchange being established at 100 to 18 in favour of the latter.

Considering these five changes, we may get a glimpse of the Shanghai financial circles acquiring a nearly modern aspect in their appearance and form. Then, how will their special "Chinese" character play its part in this modern aspect? This, then, is another point toward which we must direct attention.